IN THE

# Supreme Court of the United States

OCTOBER TERM, 1977

No. 77-1413

JANE ARONSON (FORMERLY KNOWN AS JANE LEOPOLDI),
*Petitioner,*

*vs.*

QUICK POINT PENCIL COMPANY, A MISSOURI CORPORATION,
*Respondent.*

## PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT.

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## PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT.

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Jane Aronson (formerly known as Jane Leopoldi) hereby petitions that a writ of certiorari be issued to review the judgment and opinion of the United States Court of Appeals for the Eighth Circuit entered December 8, 1977.

### OPINIONS BELOW

The opinion of the United States Court of Appeals for the Eighth Circuit is reported at 567 F. 2d 757, and is printed in the Appendix at page A1. The Findings of Fact and Conclusions of Law of the United States District Court for the Eastern District of Missouri, Eastern Division, are reported at 425 F. Supp. 600, and printed in the Appendix at page A21. The District Court did not render a separate opinion.

## JURISDICTION

The judgment of the Court of Appeals for the Eighth Circuit was entered on December 8, 1977. Petitioner's timely filed petition for rehearing was denied January 4, 1978. A copy of the order denying the petition for rehearing is printed in the Appendix at page A19. The jurisdiction of the Court is invoked under 28 U. S. C. § 1254(1).

## QUESTION PRESENTED

Does federal patent law pre-empt state contract law and prevent enforcement of an agreement calling for continuing payments upon the manufacture of an article any time the article which is the subject of the agreement ceases to be secret and is not covered by a valid patent?

More specifically, does an agreement by which an inventor discloses a secret and previously unknown article for purposes of having it manufactured, in return for the manufacturer's promise to make payments as long as it sells the article, conflict with the patent law simply because the article is not patentable and the sale of it by the manufacturer makes it known to the public?

## CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Constitution of the United States:

Article I, Section 8.

The Congress shall have Power . . .

> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries. . . .

Article VI, second paragraph.

> This Constitution, and the Laws of the United States which shall be made in Pursuance thereof . . . shall be the supreme Law of the Land; . . . any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.



Statutes:

35 U. S. C. § 101.

> Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

## STATEMENT OF THE CASE

In June 1956, Petitioner Aronson and her agent, Norbert Leopoldi, went to the offices of Respondent Quick Point Pencil Company in St. Louis, Missouri, and met with Quick Point's president, G. A. Goessling (since deceased). Under an obligation of confidence, they disclosed to Goessling the design of a keyholder which was then not publicly known but which was described in a patent application which had been filed by Aronson on October 25, 1955 (App. A43). At the close of the negotiating session, Goessling set forth a proposed license agreement in a letter to Aronson, dated June 26, 1956 (App. A24). The letter provided that Quick Point "will have the exclusive right to make and sell keyholders of the type shown in your application, Serial No. 542677", that Quick Point would "start manufacturing within 60 days after you indicate your acceptance of the following terms" and that "the royalty rate will be five percent of our selling price . . . on all keyholders which we make in accordance with the design shown in your application" (App. A30).

Upon receipt of the letter, Aronson, through Leopoldi, telephoned Goessling and an addendum to Goessling's proposal was prepared and signed and became a part of the agreement (App. A24). That addendum provided that "In the event that the Keyholder Patent Application Number 542677 is not allowed within five (5) years, Quick Point Pencil Co. agrees to pay Jane

[Aronson] two and one-half percent (2½%) of sales, at selling prices, as long as you continue to sell same" (App. A32).

In July, 1956, Quick Point began manufacturing the keyholders (App. A25), and continues to manufacture them today (App. A28).

Patent application No. 542677 was finally rejected by the Patent Office Board of Appeals on September 27, 1961, and was thereafter abandoned (App. A27). Even though Quick Point knew of the rejection and abandonment of the patent application, it continued to pay royalties (App. A26).

In 1961, while the patent application was still pending, a dispute arose between the parties concerning whether Leopoldi was prevented by the Aronson-Quick Point agreement from licensing another keyholder covered by another patent application to someone other than Quick Point (App. A44). In connection with that dispute, Quick Point's patent lawyer wrote a letter to Aronson:

> "We remind you that your license agreement is in respect of the disclosure of said Jane [Aronson] application (not merely in respect of its claims) and that even if no patent is ever granted on the Jane [Aronson] application, Quick Point Pencil Company is obligated to pay royalties in respect of any key holders manufactured by it in accordance with any disclosure of said application." (App. A38).

The keyholder was such that once it was put on the market by Quick Point it could be copied by others, and, in fact, by the late 1960's, others had copied it and were selling similar keyholders in competition with Quick Point (App. A27).

Quick Point paid Aronson five percent of its sales until June 26, 1961. On that date, five years after the date of the agreement, the payments were reduced to two and one-half percent, in accordance with the contract (App. A25), and Quick Point continued to pay Aronson two and one-half percent of its sales until October 1, 1975 (App. A26).



On November 18, 1975, Quick Point brought this action for a declaratory judgment that it has no further liability to make payments under its agreement with Aronson. Jurisdiction of the district court was based upon diversity of citizenship, 28 U. S. C. § 1332. The complaint alleged that the license agreement between Quick Point and Aronson was unenforceable because it conflicted with Article I, Section 8, Clause 8 of the United States Constitution by providing for royalty payments on an unpatented and unpatentable article. The complaint also alleged that the agreement was void, invalid and unenforceable as a restraint of trade and indefinite, uncertain and ambiguous with respect to its terms.

The matter was decided by the district court on a record consisting of a stipulation of the parties and affidavits in support of cross-motions for summary judgment. The district court concluded that the contract is valid and enforceable and obligates Quick Point to continue paying the agreed amounts so long as Quick Point continues to make and sell the keyholder which is the subject of the contract.

Quick Point appealed to the United States Court of Appeals for the Eighth Circuit. In a two-to-one decision, the court reversed the district court and held that the principles embodied in federal patent law preclude Quick Point's being bound by the contract's royalty provisions because Aronson abandoned the patent application and no patent was ever obtained on the article (App. A8-A9). Senior District Judge Larson, sitting by designation, argued in dissent that the case should be governed solely by state contract law, that the mere existence of a patent application could not require, as a matter of federal policy, that the royalty obligation cease once the patent application was abandoned, and that the majority decision irreconcilably conflicted with *Warner-Lambert Pharmaceutical Co., Inc.* v. *John J. Reynolds, Inc.*, 178 F. Supp. 655 (S. D. N. Y. 1959), *aff'd*, 280 F. 2d 197 (2d Cir. 1960).

## REASONS FOR GRANTING THE WRIT

### I. The Decision Below by a Sharply-Divided Court Decides an Important Question of Federal Pre-Emption of State Law Which Should Be But Has Not Been Decided by This Court.

The effect of the decision of the majority below is that a contract calling for the payment of royalties upon the manufacture of an article (or the use of a process or any other form of idea or invention) is valid and binding upon the manufacturer only (a) if there is an existing patent, or (b) so long as the article remains a secret. Under the decision of the majority below, at any time that the article becomes known to others and there is no patent which would entitle its inventor to exclude others from making, using or selling it, the manufacturer under a contract—no matter how explicit its language to the contrary may be—is free to make the article without payment of the contracted-for royalties.

The decision thus places in doubt a large number of contracts. It renders unenforceable every trade secret license where the trade secret later becomes known to the trade for whatever reason.* It also would render unenforceable every agreement by which a previously undisclosed idea or article which is not patentable or protectable by copyright is licensed under continuing royalties. For example, before the decision below the person who conceived a format or concept for a television series, or a motion picture, or an advertising campaign, could sell that idea in return for continuing payments based upon its use. However, under this decision, all contracts concerning such matters are unenforceable because those ideas can neither be patented nor copyrighted, and became fully known to the public upon first use. Similarly, one who takes any other type of business opportunity or idea to another and obtains an agreement for a "finder's fee" in the form of a percentage of the sales derived from it will be foreclosed from doing so because a business idea cannot be patented and necessarily becomes public upon its first use.

* Parties contracting with respect to a trade secret cannot know how long it will remain secret. For example, it may be independently conceived or invented by others. It may be learned through reverse engineering, *i.e.*, working back from a product which was on sale. Or it may be disclosed by reason of a breach of confidence. In any event, under the decision below, once it is disclosed to the public the obligation to pay royalties ceases no matter whether the parties in their negotiations had agreed upon a longer period for payment of royalties and had calculated the royalty rate based upon that length of time.



The decision below would also require a holding that an obligation to pay royalties during the pendency of a patent application is not enforceable if the manufacture and sale of the article by the licensee makes the subject matter of the patent application known to the public. In *Lear, Inc.* v. *Adkins*, 395 U. S. 653, 674 (1969), this Court pointed out that the question of the enforceability of a royalty obligation *prior* to the issuance of the patent in that case "squarely raise[d] the question whether, and to what extent, the States may protect the owners of *unpatented* inventions who are willing to disclose their ideas to manufacturers only upon payment of royalties." Although recognizing that an "important question of federal law" was presented, the Court expressly declined to rule on that question at that time (*Id.* at 675).* The majority below has done so and has ruled that such a contract is unenforceable.

The decision below not only seriously impairs the ability of inventors and manufacturers to contract in the future, but also renders unenforceable countless contracts already in effect and

* Mr. Justice White, in his partial concurrence, felt the Court had no reason to raise or consider this question. However, he noted that the Court's decision was apparently based on the assumption that pre-issuance and post-issuance royalties do not stand on the same footing under federal law. Justice White said that such a distinction might be valid and pre-issuance royalties therefore recoverable. However, he questioned an inflexible rule on post-issuance royalties, at least to the extent they represent payment for disclosure of the inventor's idea to the licensee while the patent application is pending. To that extent, he indicated, such royalty payments seem indistinguishable from pre-issuance royalties, at least for purposes of federal patent law. 395 U.S. at 682 n.2.

creates potential rights in numerous licensees to sue for refund of previously paid royalties. As noted in Section III *infra,* the decision below thus acts to prevent the normal operation of state contract law to provide economic incentive to small innovators, and is contrary to the spirit of this Court's decision in *Kewanee Oil Co.* v. *Bicron Corp.,* 416 U. S. 470 (1974) which permitted both state and federal law to operate concurrently to protect and encourage invention. The important question raised by this case has not been but should now be decided by this Court.

## II. The Decision Below Conflicts with a Prior Decision of the Court of Appeals for the Second Circuit.

As pointed out by the dissent, the case of *Warner-Lambert Pharmaceutical Co., Inc.* v. *John J. Reynolds, Inc., supra,* which reached a contrary result, is indistinguishable from the case at bar. In that case, Warner-Lambert agreed to make payments to the discoverer of the formula for Listerine so long as it continued to manufacture the product. The formula eventually became public, and after making payment for many years under the agreement, Warner-Lambert brought suit seeking release from the contract. The court concluded that the contract was enforceable, rejecting essentially the same argument accepted here by the Eighth Circuit. See 178 F. Supp. at 663-65.

The supposed vice which the majority found in the agreement in question here was equally present in the *Listerine* agreement. The majority below found that Quick Point's contractual obligation to pay Aronson royalties on the manufacture of the article in question, even though Aronson obtained no patent on the article and has no ability to foreclose others from manufacturing it, was contrary to the public policy embodied in the federal patent law. After stating that "federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent," the majority below misread *Lear, Inc.* v. *Adkins, supra,*



and concluded that: "[W]e believe, as the Supreme Court did, that 'enforcing this contractual provision would undermine the strong federal policy favoring the full and free use of ideas in the public domain' " (App. A6).

The secret involved in the *Listerine* case, *i.e.,* the formula for Listerine, had gone into general circulation after the contract was made, just as the design for Aronson's keyholder later went into general circulation. If requiring Quick Point to pay royalties prevents the full and free use of ideas in the public domain, so, too, did the requirement that Warner-Lambert continue paying royalties. Indeed, the effect on the use of ideas which are available to everyone in the public is absolutely no different in one case from the other. Perhaps if a patent had issued in this case, the circumstances here could be distinguished from *Warner-Lambert* because Aronson would then have been the beneficiary of the monopoly granted by the patent statute. But since no patent was ever issued here, Aronson has been in no better position than the inventor of Listerine whom the Second Circuit held could continue to receive royalties.

The effect of the opinion below is that there is now a direct conflict between the Eighth and Second Circuits on the question of whether a contract for continued royalties is enforceable once the subject matter of what was originally a confidential disclosure becomes public knowledge and is not protected by a patent.

The decision of the majority below is also in conflict with scholarly legal writing on the subject and with other lower court decisions. One leading commentator who has written extensively in the field of trade secrets has pointed out that:

> "Since a trade secret owner cannot offer protection to his licensees against independent developers, it follows that the consideration for a trade secret license is disclosure of the trade secret, not the right to continued enjoyment as in the case of a patent license. Your author has long been of the view that if the trade secret licensee cannot, in the license negotiations, bargain for royalty reduction or

> abatement upon the secret's becoming generally known or simply used by a few competitors, his continued use should bear royalty. That view has now been fully and articulately developed, in a manner showing the result encourages competition *and* respects contract obligations." 2 Milgrim, Trade Secrets, Section 6.05[2][d] at p. 6-144-45 (1977) (emphasis in the original).

See also, McCarthy, *"Unmuzzling" the Patent Licensee: Chaos in the Wake of Lear* v. *Adkins,* 45 Geo. Wash. L. Rev. 429, 472-75 (1977); Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters,* 46 N.Y.U. L. Rev. 17, 30-34 (1971).

This view has been recognized and accepted in cases decided since *Lear.* Thus, in *Sinclair* v. *Aquarius Electronics, Inc.,* 42 Cal. App. 3d 216, 116 Cal. Rptr. 654 (1974), the court held that the licensor of a trade secret was entitled to continue to collect royalties even though the secret was later publicly disclosed and no patent covered the subject of the secret. The court specifically rejected the claim that the royalty agreement was repugnant to the federal patent law. Similarly in *Shepard* v. *Commissioner,* 57 T. C. 600, 613-14 (1972), the Tax Court, citing *Warner-Lambert,* recognized that a royalty agreement transferring trade secrets or technology, apart from patents, may be enforceable against the licensee so long as he manufacturers the article, even when the subject of the agreement becomes public knowledge. See also *Wrigley* v. *Compudyne Corp.,* 390 F. Supp. 478 (E. D. Pa. 1975); (*Lear* held inapplicable to suit for royalties on license agreement involving rejected patent application); and *Heltra, Inc.* v. *Richen-Gemco, Inc.,* 395 F. Supp. 346 (D. S. C. 1975), *rev'd on other grounds,* 540 F. 2d 1235 (4th Cir. 1976). In addition to resolving the conflict in the federal circuits, the Court's decision would resolve conflicts arising in state courts. *Compare Sinclair* v. *Aquarius Electronics, Inc., supra, with Pollack* v. *Angelus Block Co.,* 171 U. S. P. Q. 182 (Cal. Super. Ct. Jan. 7, 1971) and *Choisser Research Corp.* v. *Electronic Vision Corp.,* 173 U. S. P. Q. 234 (Cal. Super. Ct. Feb. 28, 1972).



Granting the writ and deciding this case will not only resolve the conflicts that already exist but prevent the inevitable inconsistent results in future cases.

### III. The Decision Below Rests Upon an Erroneous Interpretation of Federal Pre-emption Policy Embodied in the Federal Patent Law.

This Court had occasion in *Kewanee Oil Co.* v. *Bicron Corp., supra,* to consider in detail the constitutional underpinning and policy embodied in the federal patent law. The decision below is based upon an erroneous interpretation of that policy and is in direct conflict with the policy announced in *Kewanee.*

In *Kewanee,* it was pointed out that the "stated objective of the Constitution in granting the power to Congress to legislate in the area of intellectual property is to 'promote the Progress of Science and useful Arts'." 416 U. S. at 480. Thus, the purpose of the patent law is to encourage invention. It does so first by granting a 17-year right to exclude others from using the patented invention, and, secondly, by requiring full disclosure of the invention so that any person skilled in the art may use the invention after the expiration of the 17-year term of the patent. As noted in *Kewanee,* this "disclosure, it is assumed, will stimulate ideas and the eventual development of further significant advances in the art." 416 U. S. at 481.

Enforcement of the state-created rights in the contract involved in this case will not discourage invention or in any way conflict with the purposes of the federal patent law outlined in *Kewanee.* In fact, the contrary is true; it is the decision below that will discourage invention. If permitted to stand, it will discourage innovation by those who would otherwise spend time and money to develop new articles or designs in the expectation that they can enter into contracts with manufacturers to pay royalties for the use of the development irrespective of whether it is patentable. The only alternative such in-

ventors now have under the majority decision, if their invention is not patentable, is to attempt to negotiate a large lump sum payment at the beginning. But few manufacturers are willing to make such lump sum payments since they do not know what the success of the product will be. Fewer inventors will find profitable arrangements by which they can reap benefits from their inventions and they will be discouraged from investing the time, effort and money necessary to make those discoveries. Such an effect of discouraging innovators is directly contrary to the federal policy of encouraging invention which this Court re-emphasized in *Kewanee*.

By the same token, the decision below will result in fewer disclosures of inventions to the public. The agreement in this case resulted in the design of the keyholder becoming known not only to Quick Point but also to Quick Point's competitors who saw and copied the design (App. A27). That design not only became available to the public but it may very well have contributed to the design of other keyholders, which, while not identical, were suggested by or invented as a result of the success of the keyholder licensed by Aronson.

This Court said in *Kewanee* that "[w]hen a patent is granted and the information contained in it is circulated to the general public and those especially skilled in the trade, such additions to the general store of knowledge are of such importance to the public weal that the Federal Government is willing to pay the high price of 17 years of exclusive use for its disclosure. . . ." 416 U. S. at 481. If the framers of the patent law felt that public disclosure was worth that high price, the encouragement of disclosure by agreements of the type involved here is certainly worth the relatively modest price of requiring the single manufacturer who had the benefit of first disclosure to live up to his contract to pay royalties.

The majority below failed to apply the *Kewanee* test of federal pre-emption or even to consider the policy of the patent law enunciated by this Court in that case. Instead, the opinion below



rests upon a misreading of prior decisions of this Court, including *Lear, Inc.* v. *Adkins, supra, Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S. 225 (1964), and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U. S. 234 (1964). Even assuming those earlier decisions apply in this situation, they in no way require the result reached below.

The majority below said: "We begin with the principle that federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent", citing *Lear, Sears* and *Compco* (App. A4). But those cases did not hold that valid contracts cannot be entered into relating to ideas which subsequently become in general circulation. If read to mean that such contracts are invalid, the statement is simply too broad and amounts to a reversion to the discredited doctrine (based upon the *dictum* of Mr. Justice Black in his opinions in *Sears* and *Compco* and his partial dissent in *Lear*, 395 U. S. at 677) that the patent law is exclusive which was subsequently rejected by this Court in *Kewanee*. Indeed, if such were the holding of *Lear, Sears* and *Compco*, this Court certainly would not have said in *Lear* that it was expressly *not* deciding the question of the validity of a contract for the payment of royalties for disclosure prior to the issuance of a patent.

After quoting from *Sears* that "[t]o allow a State by use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the public something which federal law has said belongs to the public", the majority concluded: "We believe this principle applies to a state's contract law as well as to state unfair competition laws, *at least when a patent application is involved*" (App. A5; emphasis in the original). But enforcement of the obligation to pay royalties here would not "block off from the public" anything involved in this case. Any member of the public who is not a party to this contract may copy the article and make it without

any obligation whatsoever. Even Quick Point is not prohibited from making the article; it is merely required to adhere to its agreement to pay a royalty if it does so. In both *Sears* and *Compco,* where no contract was involved, a contrary decision would have permitted the inventor to exclude all members of the public from manufacturing the item in question. Similarly, in *Lear* a contrary result would have meant that the person particularly suited to challenge the validity of a patent would be foreclosed from doing so, thus creating the greater likelihood that an inventor could foreclose all of the public from making, using or selling the subject of his patent. The sole question here is not whether state law—be it contract or otherwise—can be used to prevent the copying of an unpatented article. It is whether the states can validly require a party to live up to his agreement to pay another compensation for the manufacture of an unpatented article which was secret at the time of disclosure.

The policy underlying *Lear* does not require that the contract involved here be declared unenforceable. That policy is that it is contrary to the public interest to have invalid patents go unchallenged. Since a patent licensee is perhaps uniquely qualified and motivated to challenge the validity of a patent, state contract law preventing him from challenging the validity of the licensed patent directly conflicts with the federal policy of encouraging such challenges. But that policy has no application to this case because here there is no patent to be declared invalid.

The majority below recognized that no patent is involved but placed controlling reliance upon the fact that a "patent application is involved" (App. A5). But a patent application is not a patent. It takes nothing from the public and gives the inventor no monopoly or right to exclude others from the use of his invention. In addition, patent applications are maintained in secrecy, 35 U. S. C. § 122. Thus the mere existence of a secret patent application does not bring into issue federal patent pre-emption and certainly does not justify the drastic step of striking down state contract law.



In addition, the majority misconstrued the relationship between the patent application and the contract here. The Quick Point license was not a license of Aronson's patent application, but existed separate and apart from it. In the original agreement Quick Point stated it would have "the exclusive right to make and sell keyholders of the type *shown* in your application. . . ." and would pay royalties "on all keyholders which we make in accordance with the design *shown* in your application. . . ." (App. A30; Emphasis added.) As Quick Point's own patent attorney recognized in his April 10, 1961 letter, the license agreement was:

> ". . . in respect of the *disclosure* of . . . [the] application (*not* merely in respect of its claims) and that *even if no patent is ever granted* . . . Quick Point Pencil Company is obligated to pay royalties in respect of any key holders manufactured by it in accordance with any disclosure of said application." (App. A38; Emphasis added.)

The only relevance the patent application had to the original disclosure and agreement was as a vehicle to describe the article licensed for Quick Point and to identify it for purposes of the contract. This could have as easily been accomplished by some other means and that fact alone should not be the deciding factor in this case.

There is no doubt that Quick Point and Aronson hoped that a patent would issue and intended that Aronson should prosecute the application. However, the parties recognized that no patent might issue and provided for that event in the addendum by reducing the royalties after a reasonable time if no patent issued. In any event, Quick Point clearly expressed its desire to have the article disclosed to it and wanted to manufacture it irrespective of whether a patent ever issued or not. It was willing to pay a 5% royalty during the pendency of the application and thereafter if a patent should issue, but Quick Point also was willing, in return for the disclosure and the head start it gave Quick Point over the rest of the industry, to pay a 2½% royalty for as long as it sold the keyholder even if no patent issued.

If the law were that the only basis for collecting royalties or a commission from the sale of an article is the existence of a granted patent, then the decision below might be justified. But that is clearly *not* the law. This Court held in *Kewanee* that federal patent law has not pre-empted all state law relating to discoveries; instead, the only limitation on state law is that it not be in conflict with the operation of federal law (416 U. S. at 479-80). In this case there is no such conflict.

*Brulotte* v. *Thys Co.*, 379 U. S. 29 (1964), also cited by the court below, similarly does not support this decision but in fact compels a contrary result. In *Brulotte* this Court held that an agreement by which a patentee extracted a royalty for the use of his patents after the expiration of those patents was unlawful *per se*. But the Court was very careful to distinguish situations in which no patent is involved. It said, for example, that the case before it was not "like the hypothetical ones put to us where non-patented articles are marketed at prices based on use" (379 U. S. at 31). It also pointed out:

> "The sale or lease of *unpatented* machines on long-term payments based on a deferred purchase price or on use would present wholly different considerations. Those arrangements seldom rise to the level of a federal question." (379 U. S. at 32; Emphasis in the original).

A contract by which a manufacturer obligates itself to pay for the use of an unpatented *idea* is no different from a contract by which a purchaser of an unpatented *machine* obligates itself to pay for the use of that machine. The effect on the patent system is nil.

Thus, the mere fact that the payment of royalties under the contract means that the licensee will make less profit does not render the obligation contrary to federal policy encouraging innovation. Indeed, there are innumerable examples of situations in which businesses becomes obligated to pay a royalty, commission, or other fee to another either for a fixed or indefinite period of time. For example, a salesman or manufacturers' rep-



resentative may secure a particular account for a business and in return receive a commission on the sales of that account so long as the business makes any such sales, even though he thereafter performs no service. Similarly, Quick Point and Aronson could have structured the agreement as a joint venture in which Aronson contributed her theretofore secret design (or the capital to develop it) and Quick Point agreed to manufacture and market the product, with Aronson to receive 5% of the sales for 5 years and 2½% thereafter so long as the joint venture continued to manufacture and sell the product. No one would suggest that such contracts were illegal or unenforceable and yet their effect is no different from that involved in this case.

The error of the court below results from a failure to understand the rationale behind cases such as *Brulotte* v. *Thys*, and other cases which have struck down contractual or other devices by which a patentee sought to expand the monopoly granted him by the patent. At the foundation of those cases is the fact that the patent grant gives the inventor something he could not otherwise get, *i.e.*, the right to exclude others during the term of the patent, and in return the public is entitled to expect that he will not misuse the patent nor attempt to expand the monopoly so granted. Accordingly, it may be quite appropriate, as a matter of policy, for a patentee to be required to forego his right to obtain royalties for a period longer than 17 years in return for the exclusivity which the patent gives him (or his licensee) during those 17 years at the expense of the public. On the other hand, where no patent is granted, neither the inventor nor his licensee has exclusivity and neither may resort to the courts to obtain it. Thus, the inventor has taken nothing from the public which possibly justifies taking from him the rights the state says he has under normal contract law.

There is no doubt Quick Point knowingly bargained to pay royalties even if no patent issued. Its patent lawyer specifically said so five years after the agreement was signed (App. A38), and its president, who negotiated the contract, repeatedly

reconfirmed that obligation prior to his death and long after it was known that in fact no patent would issue (App. A30, A40, A41). Having taken the benefits of the head start which the disclosure gave Quick Point, requiring its present management to live up to the agreement does not in any way conflict with the federal policy of encouraging invention.

## CONCLUSION

For the foregoing reasons, a writ of certiorari should issue to review the judgment and opinion of the Eighth Circuit.

Respectfully submitted,

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# APPENDIX.

UNITED STATES COURT OF APPEALS
For the Eighth Circuit

No. 77-1142

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| QUICK POINT PENCIL COMPANY, a Missouri Corporation, *Appellant,* vs. JANE ARONSON (formerly known as Jane Leopoldi). *Appellee.* | Appeal from the United States District Court for the Eastern District of Missouri |

Submitted: October 14, 1977
Filed: December 8, 1977

Before LAY and ROSS, *Circuit Judges,* and LARSON, *Senior United States District Judge.**

ROSS, *Circuit Judge.*

Quick Point Pencil Company, a Missouri corporation, brought this action for declaratory judgment, naming Jane Aronson, an Illinois resident, as defendant. The amount in controversy exceeded the statutory $10,000 and the district

* The Honorable Earl R. Larson, Senior United States District Judge for the District of Minnesota, sitting by designation.

court had jurisdiction pursuant to 28 U.S.C. § 1332.[1] As the basis for the action, Quick Point alleged a contract between the parties negotiated in June and July of 1956, wherein Aronson granted Quick Point an exclusive license to manufacture and sell a keyholder for which Aronson (formerly Jane Leopoldi) had submitted a patent application, Serial No. 542,677, on October 25, 1955. In exchange for the exclusive license Quick Point promised to pay Aronson a five percent royalty, to be reduced to two and one-half percent if no patent were granted within five years. Quick Point agreed to pay these royalties for as long as it continued to manufacture and sell the keyholders. Aronson never obtained a patent on the keyholder but Quick Point paid royalties under the agreement until October of 1975,[2] for a total of $203,963.84.

In its complaint Quick Point alleged that the license agreement, providing for royalties on an unpatented and unpatentable article for an indefinite duration, conflicted with article I, section 8, clause 8 of the United States Constitution,[3] and

1. 28 U. S. C. § 1332(a)(1) provides:

(a) the district courts shall have original jurisdiction of all civil actions where the matter in controversy exceeds the sum or value of $10,000, exclusive of interest and costs, and is between—

(1) citizens of different States;

* * * * *

2. Quick Point Pencil Company continues to make and sell the keyholders but is no longer making royalty payments under the agreement.

3. The United States Constitution provides:

[The Congress shall have Power]

To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;

* * * * *

U. S. Const. art. I, § 8, cl. 8.



the Supermacy Clause.[4] It sought declarations that the agreement was unenforceable and that it had no further liability to make royalty payments under the license. After the parties filed a joint stipulation of uncontested facts and cross-motions for summary judgment, the district court took the case under submission without trial.

On December 29, 1976, the district court ordered, adjudged and decreed that the contract is valid and enforceable and Quick Point has the continuing liability to make royalty payments for as long as it manufactures the keyholders. He concluded that "[t]he language of the agreement is plain, clear and unequivocal and has no relation as to whether or not a patent is ever granted or is not granted." *Quick Point Pencil Co.* v. *Aronson,* No. 75-1056C(1) (E.D. Mo., filed Dec. 29, 1976). He determined that this case is not controlled by *Compco Corp.* v. *Day-Brite Lighting, Inc.,* 376 U.S. 234 (1964); *Sears, Roebuck & Co.* v. *Stiffel Co.,* 376 U.S. 225 (1964); nor *Lear, Inc.* v. *Adkins,* 395 U.S. 653 (1969). Quick Point appeals from that judgment.

Quick Point contends that the district court erred in holding that this case is governed solely by contract law without regard for federal patent and antitrust considerations. It argues that the principles set forth in *Lear, Inc.* v. *Adkins, supra,* should be controlling here. Aronson contends that the contract contains an unequivocal promise to pay a royalty which is independent of the existence of a patent and enforceable as long as Quick Point continues to manufacture the keyholder.

The issue we must decide is whether Quick Point, a patent application licensee, is bound by the contractual provision

4. The Supremacy Clause provides:

This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, and any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

U. S. Const. art. VI, cl. 2.

requiring it to pay royalties for as long as it manufactures the item described in the patent application even though the licensor abandoned the application many years ago and the licensee's competitors are freely manufacturing the unpatented item.[5] We believe it is not so bound and reverse the district court's judgment.

The issue involves the relationship between state contract law and federal patent law. Although the Supreme Court has not decided the precise question, it has dealt with the conflict in similar contexts and has established principles that can be applied here.

We begin with the principle that federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent. *See Lear, Inc.* v. *Adkins, supra,* 395 U.S. at 656; *Sears, Roebuck & Co.*

5. The dissent describes the contract as a "trade-secret licensing agreement." We doubt that the keyholder could ever have been characterized as a trade secret. Although it may have been an "invention," it was a relatively simple device and once marketed, it was completely disclosed. *See* RESTATEMENT OF TORTS § 757, comment b. ("Matters which are completely disclosed by the goods one markets cannot be his secret.")

The dissent agrees that the parties "intended that Aronson would in good faith attempt to patent the keyholder." The language from Milgrim's law review article quoted by the dissent further supports our conclusion that patent principles apply in this case. Milgrim states:

> * * * the license reward for a trade secret tends to be a function of consideration for disclosure; for a patent, consideration for use * * *. Since a prospective trade secret licensee knows that his licensor cannot protect him from independent developers, he weighs the value of disclosure against the risks of relying on matter which is subject to third-party royalty-free use. Whether articulated or not, such balancing is the stuff that leads to hard negotiating for royalty rate and duration.

Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters,* 46 N. Y. U. L. REV. 17, 30 (1971). Quick Point contracted for "the exclusive right to make and sell keyholders of the type shown in [Aronson's] application * * *." The agreement was not for disclosure but for the exclusive right to manufacture an invention that was to be patented.



v. *Stiffel Co. supra,* 376 U.S. at 232-33; *Compco Corp.* v. *Day-Brite Lighting, Inc. supra,* 376 U.S. at 238. In *Sears* the Court made the following statement concerning the relationship between state laws on unfair competition and the federal patent laws:

> To allow a State by use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the public something which federal law has said belongs to the public. The result would be that while federal law grants only 14 or 17 years' protection to genuine inventions, see 35 U.S.C. §§ 154, 173, States could allow perpetual protection to articles too lacking in novelty to merit any patent at all under federal constitutional standards.

376 U. S. at 231-32.

We believe this principle applies to a state's contract law as well as to state unfair competition laws, *at least when a patent application is involved.* Further support for this belief is found in *Lear, Inc.* v. *Adkins, supra,* 395 U. S. at 677 (Black, J., joined by Warren, C.J., and Douglas, J., concurring in part and dissenting in part):

> The national policy expressed in the patent laws, favoring free competition and narrowly limiting monopoly, cannot be frustrated by private agreements among individuals, with or without the approval of the State.

In *Lear* a patent licensee attempted to defend a suit for royalties by challenging the validity of the underlying patent. The situation was similar to the one involved here. While the patent application was pending the inventor and the manufacturer contracted for an exclusive license-royalty arrangement. Before the patent was allowed the manufacturer discontinued the royalty payments because it believed that the improvements were not sufficiently novel and that the inventor would never

be able to obtain a patent.[6] The patent office did grant a patent and the inventor sued for royalties. The Supreme Court of California refused to allow the manufacturer's patent invalidity defense holding that it was estopped by the contract to make that challenge. Finding that such a rule would significantly frustrate overriding federal policies, the United States Supreme Court reversed.

Under the rule announced in *Lear,* if Aronson had obtained a patent which was later determined to be invalid, Quick Point's liability would have terminated.[7] In fact Quick Point could have challenged the validity of the patent and suspended payment of royalties while making the challenge. *See Lear, Inc.* v. *Adkins, supra,* 395 U. S. at 674.

Although Aronson's position is different than the inventor's in *Lear* because no patent was granted here, we believe, as the Supreme Court did, that "enforcing this contractual provision would undermine the strong federal policy favoring the full and free use of ideas in the public domain." *Id.* at 674.

Two other Supreme Court decisions lend support to our conclusion. In *Brulotte* v. *Thys Co.,* 379 U. S. 29 (1964), the Court held: "[A] patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se." Id.* at 32. So if Aronson had obtained the patent for which she applied, after 17 years the contract with Quick Point would have been invalid and Quick Point's liability for royalties terminated.

6. Unlike the contract involved here the parties had agreed that if no patent were issued or if a patent were later declared invalid, the manufacturer had the right to terminate the license.

7. The precise point at which a licensee's liability for royalties may terminate under the rule announced in *Lear, Inc.* v. *Adkins,* 395 U. S. 653 (1968), is a matter of some dispute. In *Lear,* the date of the patent's issuance was the decisive date, but Lear had challenged the patent before it issued. Here Quick Point sought a decree that it had no *further* liability for royalties, so the date of Quick Point's challenge becomes the crucial date.



In *Kewanee Oil Co.* v. *Bicron Corp.,* 416 U. S. 470 (1974), the Supreme Court faced another situation involving a conflict between state trade secret law and federal patent policies. In holding that state trade secret laws may protect unpatented but clearly patentable inventions without conflicting with the patent law policy of disclosure, the Supreme Court stated:

> The possibility that an inventor who believes his invention meets the standards of patentability will sit back, rely on trade secret law, and after one year of use forfeit any right to patent protection, 35 U.S.C. § 102(b), is remote indeed.

*Id.* at 490.

Not only did Aronson not rely on trade secret protection, it is doubtful that her keyholder would have been entitled to any such protection. The Court stated:

> A trade secret law, however, does not offer protection against discovery by fair and honest means, such as by independent invention, accidental disclosure, or by so-called reverse engineering, that is by starting with the known product and working backward to divine the process which aided in its development or manufacture.

*Id.* at 476 (footnote omitted).

Any member of the general public could have inspected Aronson's keyholder in an attempt to determine how to manufacture it.[8] *See Sears, Roebuck & Co.* v. *Stiffel Co., supra,* 376 U.S. at 231-32. Aronson did not take this chance. She applied for a patent, contracted with regard to that patent application,[9]

8. That, in fact, is what has happened here. The parties stipulated, and the district court found, that in the late 1960's Quick Point's competitors began making keyholders similar to the one in question and since no patent was ever granted they continue to make these similar keyholders without paying royalties. No state law could prohibit this copying. *See Sears, Roebuck & Co.* v. *Stiffel Co.,* 376 U. S. 225, 231-32 (1964).

9. Jane Aronson contends that the contract provision reducing the royalties if no patent issued within five years indicates that patent

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and cannot now argue that patent law principles are irrelevant to this case.[10]

Aronson believed her invention was patentable and she submitted a patent application. Had a patent issued she would have had 17 years of exclusive rights to her invention before it became part of the public domain. She approached Quick Point with her idea and the parties entered into a contract anticipating that a patent would issue. If that had happened, under *Brulotte v. Thys Co., supra,* 379 U.S. at 32, Quick Point's liability for royalties would have ended after 17 years *in spite of the contract.* Furthermore, if a patent had issued and Quick Point had later questioned the patentability of the keyholder, under *Lear, Inc. v. Adkins, supra,* 395 U.S. at 674, it could have stopped making royalty payments and challenged the patent in court. If such a challenge were successful, Quick Point's liability for payments would have ended *in spite of the contract.*[11] We do not believe the result should be different here. The principles discussed above strongly indicate that any other conclusion would violate public policy.

We conclude that Quick Point, who contracted for an exclusive license to manufacture and sell an item for which the licensor had submitted a patent application, is not bound by a

(Footnote continued from preceding page.)

law was not considered by the parties nor applicable here. Quick Point suggests that that provision does not indicate that it anticipated that if no patent was issued within five years none would ever issue, but that it provides for the possibility that the patent would issue at a date more than five years after the contract was signed. We need not speculate as to what agreement the parties might have reached had no patent application been involved—one was.

10. In her brief Aronson argues that the pending patent application was *relevant* because it contained a disclosure that was maintained in secrecy by the United States Patent Office and thus was not available to the general public. On the other hand she contends that the agreement was *independent* of the existence of a patent.

11. Although the parties here did not expressly condition their agreement on the issuance of a patent, under the facts of this case and in view of our decision, we believe the result would be the same as in *Lear, Inc. v. Adkins, supra.*



provision for prolonged royalty payments since the licensor abandoned the application[12] and no patent was ever obtained.[13]

The judgment of the district court is reversed and the case remanded for disposition consistent with this opinion.

LARSON, *Senior District Judge,* Dissenting.

I respectfully dissent.

The majority appears to acknowledge that the contract here was not conditioned on the issuance of a patent.[1] Yet it attributes considerable importance to the fact that a patent application was "involved" and appears to hold that a private agreement which "involves" an abandoned patent application may not be enforced as a matter of federal policy.[2] Because that holding appears to be based on a characterization of the issues with which I disagree, I deem it necessary to discuss in some detail my understanding of the legal principles governing this case.

First, the nature of the contract between Quick Point and Aronson should be clarified. In retrospect, Quick Point made a bad bargain. It agreed to pay royalties on the Aronson invention as long as it continued to make and sell the same, and the agreement, as the district court found, had *no relation to whether or not the item was ever patented. Quick Point Pencil v. Aronson,* No. 75-1056C(1) (E.D. Mo., filed Dec. 29,

12. It is interesting to note that Aronson abandoned her effort to get a patent in September of 1961, about six months after her husband applied for a patent on a similar device. He received a patent in 1964.

13. In view of our conclusion we need not reach Quick Point's contentions that the license was in restraint of trade and violated the federal antitrust laws, or that under Missouri law the license was not enforceable.

1. *See* footnote 11 of the majority opinion, *supra.*

2. *See* footnote 9 and text accompanying notes 12 and 13 of the majority opinion, *supra.*

1976).[3] The parties no doubt intended that Aronson would in good faith attempt to patent the keyholder, but Quick Point nevertheless bound itself to pay even if those efforts failed. It should be emphasized that had the contract been *conditioned* on the issuance of a patent, it would have terminated long ago by its own terms. Similarly, had Aronson abandoned the application in bad faith while there was a reasonable likelihood of success with the Patent Office, Quick Point might very well have had a breach of contract remedy. But there is no indication whatsoever that Aronson exercised bad faith and one can only assume that the parties acquiesced in the 1961 Patent Office's determination that the invention was unpatentable or, at least, agreed that no further efforts were required.

With the nature of the contract thus identified, and hypothetical possibilities set aside, the core of this controversy becomes clear: these parties entered into a trade-secret licensing agreement[4] that provided for payment of royalties for an indefinite time on an item that proved to be unpatentable and which others have now copied. One party now seeks to be released from its contractual obligation. Thus stated, this case is virtually on all fours with *Warner-Lambert Pharmaceutical*

3. The majority notes that had a patent issued Quick Point would have had to pay royalties only for the patent period, in light of *Brulotte* v. *Thys,* 379 U. S. 29 (1964). That is true, but in this context is relevant only to the patent misuse analogy that appellant appears to be drawing and which I have discussed at footnote 9, *infra.* It might also be pointed out that had a valid patent issued in 1961, when it was in fact denied, Quick Point would still be liable for royalties until 1978.

4. The majority questions characterizing this agreement as a trade-secret licensing agreement, noting that the keyholder was a simple device and could be copied. The fact remains that the keyholder was secret at the time it was disclosed and it was not successfully copied until the late 1960's, long after it had been marketed. It is precisely because disclosure and marketing may lead to copying that parties will enter into express contracts extending payment obligations beyond the duration of secrecy. The question is whether such agreements are enforceable as a matter of contract law, not whether, absent an express agreement, trade secret law would afford protection once copying has occurred.



*Co., Inc.* v. *John J. Reynolds, Inc.,* 178 F. Supp. 655 (S.D. N.Y. 1959), *aff'd,* 280 F.2d 197 (2d Cir. 1960). In *Warner-Lambert,* a manufacturer agreed to make payments to the discoverer of the formula for Listerine as long as it continued to manufacture the product. The formula eventually became public, after many years under the agreement, and Warner-Lambert sought release from the contract. The court upheld the agreement, and established the rule that "A license agreement with respect to a trade secret may last indefinitely and does not, in absence of express contrary language, terminate when the secret is disclosed." 2 Callman, *Unfair Competition and Trademarks* § 57(b) (3rd ed. 1968). This court must decide whether, in light of various federal policies expressed by the Supreme Court since the *Warner-Lambert* decision, the result on these facts should be different than it was in the Listerine controversy.[5]

Before reaching the issues that seem decisive here, some of appellant's arguments should be addressed. Appellant recognizes the parallels between this case and *Warner-Lambert* but contends that the fact that a patent application was "involved" distinguishes this case and invokes certain policies expressed in *Lear, Inc.* v. *Adkins,* 395 U.S. 653 (1969). This contention is apparently what persuaded the majority to analyze the issues as it did, but I find appellant's arguments unpersuasive and a

5. It should be noted that Quick Point did not argue on appeal that the contract was unenforceable under state law for being of infinite or uncertain duration. This subject was treated at length in *Warner-Lambert Pharmaceutical Co., Inc.* v. *John J. Reynolds, Inc.,* 178 F. Supp. 655 (S. D. N. Y. 1959), *aff'd,* 280 F.2d 197 (2d Cir. 1960), and that court took into account Missouri law, which would probably govern the Quick Point contract. Although there is a canon of contract construction which provides that an obligor of a contract indefinite as to duration will be released from his duty after a reasonable time, *see Freeport Sulphur Co.* v. *Aetna Life Ins. Co.,* 206 F.2d 8 (5th Cir. 1953), it is somewhat doubtful that that canon would apply here—Quick Point had within its power the ability to terminate the contract of its own accord by ceasing manufacture; it was also permitted to terminate if it became "dissatisfied" with the volume of sales.

brief explanation may clarify my view that the "involvement" of a patent application has no bearing on the resolution of this case.

In the first part of the *Lear* decision the Supreme Court abolished the doctrine of patent licensee estoppel, 395 U.S. at 670-71. In the second portion of the opinion, upon which appellant relies here, the Supreme Court considered whether Adkins could claim contractual royalties for the entire patent period based on the pre-issuance disclosure of trade secrets:

> The inventor does not merely argue that since Lear obtained privileged access to his ideas before 1960, the company should be required to pay royalties accruing before 1960 regardless of the validity of the patent which ultimately issued. He also argues that since Lear obtained special benefits before 1960, it should also pay royalties during the entire patent period (1960-1977), without regard to the validity of the Patent Office's grant. We cannot accept so broad an argument. *Id.* at 672.

Quick Point contends that there is no distinction between the situation in *Lear,* where a patent application is licensed, a patent issues, and the patent is then declared invalid and the situation here, where a patent application is licensed, and the Patent Office then refuses to issue a patent. In neither case should royalties based on disclosure of a trade secret be enforced.

But there is a clear distinction between the two situations which becomes readily apparent upon examining the major policy underpinning the Supreme Court's decision. The Court was wary of enforcing the claimed trade secret royalties in *Lear* because as a practical matter it would undercut the abolition of the licensee estoppel doctrine:

> Adkins' position would permit inventors to negotiate all important licenses during the lengthy period while their applications were still pending at the Patent Office, thereby disabling entirely all those who have the strongest incentive to show that a patent is worthless. 395 U.S. at 672.



In other words, if the trade secret disclosed in a licensing agreement coincided exactly with what was made public in the patent,[6] and the licensee was nevertheless bound to pay on the basis of the initial disclosure, he would have no incentive to challenge the patent itself—his obligation would remain the same whatever the patent's validity. The public would thus be deprived of an effective challenge to patentability and would go on "paying tribute to [a] would-be monopolist." *Id.* at 670. This policy of "unmuzzling" the licensee, and even giving him a positive incentive to challenge patent validity, is not implicated in the situation where no patent issues, and where in fact the secret disclosed must be regarded as unpatentable.[7] In ignoring this policy, appellant has essentially construed *Lear* as calling into question the validity of *any* trade secret agreement.[8]

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6. The trade secrets that Adkins disclosed were precisely the same as those disclosed in the issued patent, *see Brief for Respondent Adkins* at 49-50. *See generally,* McCarthy, " 'Unmuzzling' the Patent Licensee: Chaos in the Wake of Lear v. Adkins," 45 *Geo. Wash. L. Rev.* 429 (1977).

7. For other cases in which the parties' express contract was not predicated on the issuance of a patent, but a patent application was "involved" and the courts held that *Lear* did not govern the case, *see Wrigley* v. *Compudine Corp.,* 390 F. Supp. 478 (E. D. Pa. 1975); *Heltra Inc.* v. *Richen-Gemco, Inc.,* 395 F. Supp. 346 (1975), *rev'd on other grounds,* 191 U.S.P.Q. 663 (4th Cir. 1976).

8. Appellant's reading of *Lear* also relies on another portion of the opinion. The Supreme Court declined to decide whether Adkins could claim royalties accruing *before* 1960, the date when the patent issued, since "it squarely raises the question whether, and to what extent, the States may protect owners of *unpatented* inventions who are willing to disclose their ideas to manufacturers only upon payment of royalties." 395 U. S. at 674. It is this portion of *Lear* which raised many questions as to the validity of state trade secret law in general; some of those questions were, of course, answered by *Kewanee Oil Co.* v. *Bicron Corp.,* 416 U. S. 470 (1974). Appellant claims that this passage in *Lear* means states cannot protect owners of unpatented inventions in *all* circumstances and the Quick Point-Aronson contract is one of them. It is self-evident that that argument

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In light of the Supreme Court's subsequent decision in *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470 (1974), it is clear that *Lear* cannot be extended so far.

*Kewanee* was a trade secret misappropriation case in which the Supreme Court held that as a general rule state trade secret law is not incompatible with federal patent policy. More specifically, the Supreme Court implicitly approved the enforcement of trade secret licensing agreements:

> Another problem that would arise if state trade secret protection were precluded is in the area of licensing others to exploit secret processes. The holder of a trade secret would not likely share his secret with a manufacturer who cannot be placed under binding legal obligation to pay a license fee or to protect the secret * * *. Instead, then, of licensing others to use his invention and making the most efficient use of existing manufacturing and marketing structures within the industry, the trade secret holder would tend either to limit his utilization of the invention, thereby depriving the public of the maximum benefit of its use, or engage in the time-consuming and economically wasteful enterprise of constructing duplicative manufacturing and marketing mechanisms for the exploitation of the invention. The detrimental misallocation of resources and economic waste that would thus take place if trade secret protection were abolished with respect to employees or licensees cannot be justified by reference to any policy that the federal patent law seeks to advance. 416 U.S. at 486-87 (citations omitted).

*See also Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971); *Sinclair* v. *Aquarius Electronics, Inc.*, 184 U.S.P.Q. 682 (Cal. Dist. Ct. of Appeal, 1st Dist., Div. Two, 1974). *Kewanee* thus limited the potentially broad implications of *Lear* that appellant urges and it is *Kewanee* rather than *Lear* to which this

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assumes its own conclusion; analysis of underlying policies in *Kewanee* and other cases is the only way to determine whether the contract conflicts with federal law. *See* discussion at pages A13-A20 of this opinion.



court should look for guidance in answering the question presently before it.

Appellant contends that this case is distinguishable from *Kewanee* because the trade secret disclosed is no longer secret. It is true that *Kewanee* dealt not with an express contract extending trade secret royalties beyond the duration of secrecy, but with the more typical misappropriation case in which there are inherent limitations upon the protection the trade secret owner receives. Absent an express contract, the owner's rights against even those who learned the secret from a confidential relationship end within a certain time after, for example, independent discovery by a third party, *see* 416 U.S. at 489-90. That is not to say, however, that duration is determinative in ascertaining whether trade secret law conflicts with patent law, for trade secret protection can last significantly longer than patent protection, as in the famous example of the long-secret formula for Coca-Cola. What the Supreme Court focused on in *Kewanee* was whether the existence of trade secret protection would provide a significant disincentive to patent, thereby impinging upon the congressional objective of encouraging public disclosure of important inventions and keeping them in the public domain. *Id.* at 484. The Court concluded that whatever disincentives trade secret protection might provide were not significant enough to require federal preemption of the states' laws. The same type of analysis is helpful in deciding whether overriding federal policies require preemption of state contract law and a consequent refusal to enforce the Quick Point-Aronson bargain.

As to whether the contract here conflicts with the federal policy of leaving things in the public domain once they have become public, the answer seems obvious. Strangers to this contract have every right to copy the keyholder and they have done so. This distinguishes the situation from the problem involved by the enforcement of unfair competition laws faced in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964);

*see Sinclair* v. *Aquarius Electronics, Inc., supra,* 184 U.S.P.Q. at 686. The more difficult question is whether the enforcement of contracts such as this creates a significant disincentive to patent because, by extending a right to royalties beyond the duration of secrecy, the trade secret licensor insulates himself from the *effects* of public disclosure. *See* 74 *Harvard L. Rev.* 409, 411 (1960). Since a patent royalty agreement cannot extend beyond the patent's expiration date, *Brulotte* v. *Thys,* 379 U.S. 29 (1964), the potential availability of a much longer royalty period through private agreement might make the latter alternative much more attractive.[9]

It would perhaps be sufficient for the purposes of this case to point out that the "disincentive" argument has little force where an unpatentable invention is involved, for there is no great federal interest in encouraging attempts to patent unpatentable subject matter, and only the slightest gain to be derived from increasing the number of applications on items of dubious patentability. *See Kewanee Oil Co.* v. *Bicron Corp., supra,* 416 U.S. at 484-89. But even from a broader point of view, the disincentive argument is not particularly compelling. Although a trade secret licensor might well prefer to obtain a private agreement ensuring royalties for an extended time rather than to license a patent for 17 years, licensees are most apt to think differently. In other words, it is from the perspective of the bargaining situation that the risk of deterrence from patent application must be assessed, and in most cases the value of

9. In addition to the danger that extended trade secret protection will cause a weakened incentive to patent, there may be another theory underlying this argument, namely, that freedom to contract should be circumscribed by a "trade secret misuse" doctrine just as it is circumscribed by the patent misuse doctrine expressed in *Brulotte* v. *Thys,* 379 U. S. 29 (1964). I think it unnecessary to discuss this theory in much detail; the patent misuse doctrine is to prevent a party from using his extraordinary legislative grant of exclusivity as leverage to extend the benefits he has obtained. The trade secret owner has no such leverage; he cannot guarantee his licensees freedom from encroachment by others. *See* Milgrim, *Trade Secrets,* § 6.05[2][d] (1977).



patent protection will be important enough to the licensee that the trade secret owner would not be able to extract a contract of indefinite duration beyond the point of secrecy, when other parties can copy the item royalty-free. Even in the instant case, where Quick Point for whatever reason agreed to such a contract, there was nevertheless every incentive for Aronson to patent. Quick Point would have paid much higher royalties for the patent period and Aronson would not have run the risk that Quick Point would cease manufacture and leave her with an unsellable idea, already copied by others. A well-known advocate of trade secret protection has expressed the distinctions between the interests sought to be served by patent law and those served by trade secret law, and has discussed the very issue present in this case:

> [T]he license reward for a trade secret tends to be a function of consideration for disclosure; for a patent, consideration for use * * *. Since a prospective trade secret licensee knows that his licensor cannot protect him from independent developers, he weighs the value of disclosure against the risks of relying on matter which is subject to third-party royalty-free use. Whether articulated or not, such balancing is the stuff that leads to hard negotiating for royalty rate and duration.
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> * * * * *
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> In light of these distinctions, and the effect that they have on the bargaining between the parties, it is my view that the rights and duties bargained for and embodied in the trade secret license should govern. If a trade secret licensee does not elect to condition continuing royalty on continuing secrecy, we may assume that the value of immediate disclosure weighed heavily. It is no more appropriate for a court of law, after the fact, to renegotiate a trade secret license agreement when the subject matter becomes generally known than it is for a court to set aside a contract to purchase a house * * * where the purchaser could have driven a better bargain. Thus, leaving the parties where their bargain has placed them in a trade secret licensing context is not inconsistent

with holding that a patent licensor may not require royalties beyond the life of the patent. Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters,* 46 N.Y.U. L. Rev. 17, 30, 31 (1971).

*See also* Milgrim, *Trade Secrets,* § 6.05[2][d], § 6.05[4] (1977); *Sinclair* v. *Aquarius Electronics, Inc., supra.* I find that analysis persuasive.

In summary, the contract here was negotiated at arms length. There is no evidence of misrepresentation, bad faith, or inequality of bargaining power. Quick Point had the opportunity to assess its risks and took a gamble and has called upon the court for relief because it did not like the results. I conclude that no federal patent policies bar the enforcement of the contract according to its terms. Moreover, although I do not dismiss the possibility that a trade secret license can run afoul of the Sherman Act, I find nothing in this record that establishes an unreasonable restraint of trade as a result of this agreement. Finally, appellant's argument that it should be excused from performance because the purpose of the contract has been frustrated is wholly without merit.

I would affirm the district court.

A true copy.

Attest:

*Clerk, U. S. Court of Appeals, Eighth Circuit.*



UNITED STATES COURT OF APPEALS
For the Eighth Circuit

September Term, 1977

77-1142

QUICK POINT PENCIL COMPANY, *Appellant,*
*vs.*
JANE ARONSON, *Appellee.*

Appeal from the United States District Court for the Eastern District of Missouri

The Court having considered petition for rehearing en banc filed by counsel for appellee and, being fully advised in the premises, it is ordered that the petition for rehearing en banc be, and it is hereby, denied.

Considering the petition for rehearing en banc as a petition for rehearing, it is ordered that the petition for rehearing also be, and it is hereby, denied.

January 4, 1978

UNITED STATES DISTRICT COURT
Eastern District of Missouri
Eastern Division

| | | |
|---|---|---|
| QUICK POINT PENCIL COMPANY, a Missouri Corporation, *Plaintiff*, *vs.* JANE ARONSON (formerly known as Jane Leopoldi), *Defendant*. | } | No. 75-1056C(1) |

## JUDGMENT

(Filed in U.S. District Court December 29, 1976)

Findings of fact and conclusions of law dated this day are hereby made a part of this judgment.

It Is Ordered, Adjudged and Decreed:

(a) That the contract in question is valid and enforceable so long as plaintiff continues to make and sell the key holder item which is the subject of the contract;

(b) Plaintiff has the continuing liability to make royalty payments under said contract to defendant, which liability of the plaintiff can be terminated by the simple expediency of plaintiff ceasing to make and sell said key holder item;

(c) Plaintiff is ordered to pay to defendant the monthly royalty payments for the month of October, 1975 and continuing for each successive month thereafter with interest at the rate of 6 percent per annum.

(d) The defendant shall recover of the plaintiff her costs.

/s/ JAMES H. MEREDITH
*United States District Judge*

Dated this 29 day of December, 1976.

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## FINDINGS OF FACT AND CONCLUSIONS OF LAW

(Filed in U.S. District Court December 29, 1976)

This matter was submitted to the Court on agreed stipulation of facts, exhibits, affidavits and briefs. Plaintiff has sued for declaratory judgment. Both plaintiff and defendant filed motions for summary judgment. There are no facts in dispute. The Court makes the following findings of fact.

### FINDINGS OF FACT

1. Plaintiff is a corporation organized and existing under the laws of the State of Missouri, with its principal place of business in Fenton, Missouri.

2. At all relevant times, Plaintiff was and is engaged principally in manufacturing products for the advertising specialty industry.

3. At all relevant times, Defendant was and is a resident of the State of Illinois. Her present married name is Jane Aronson Hossfeld.

4. On June 26, 1956, defendant entered into an agreement with the plaintiff which gives plaintiff the exclusive license and right to make and sell key holders of the type shown in defendant's patent application No. 542,677, which was filed with the United States Patent Office on October 25, 1955. The application was disclosed by the defendant to the plaintiff's officers. The agreement was amended on June 27, 1956. The agreement provides that plaintiff would pay defendant royalties at the rate of 5 percent and if no patent was issued within five years of June 27, 1956 the royalties would be reduced to 2½ percent "as long as you [plaintiff] continue to sell the same."

5. Plaintiff commenced manufacturing key holders in July of 1956 and paid a five percent royalty on gross sales until June 26, 1961, when the royalty was reduced to two and one-

half percent. On that date defendant had not been granted a patent on application No. 542,677.

6. On January 27, 1959, the parties executed a supplementary agreement, which provided for royalties on key holders sold in combination with rulers, watches and other items. This agreement did not otherwise alter any terms of the original agreements.

7. Plaintiff paid royalties to defendant in excess of $200,000.00 from July 9, 1957 to September, 1975.

8. Defendant's key holder invention was never patented. In 1956 the United States Patent Office rejected defendant's first application. This was amended and rejected in 1957. An appeal was filed in the Patent Office to the Board of Appeals and on September 27, 1961, the Board of Patent Appeals held this was an unpatentable invention.

9. In the late 1960's and in 1970 competitors of the plaintiff began making key holders similar to the one in question and since no patent has been granted the competitors continued to make these similar key holders without paying royalties.

10. Defendant has demanded the monthly royalty payments for the month of October, 1975 which plaintiff refuses to make. Plaintiff continues to manufacture the key holder; however, its share of the market has declined even though the number of key holders manufactured has increased.

## Conclusions of Law

1. This Court has jurisdiction by virtue of 28 U.S.C. § 1332 in view of the fact that plaintiff is a Missouri corporation with its principal place of business in Fenton, Missouri, and defendant is a citizen and resident of the State of Illinois, and the amount of controversy exceeds $10,000.00. This action is for declaratory judgment under 28 U.S.C. § 2201.



2. The language of the agreement is plain, clear and unequivocal and has no relation as to whether or not a patent is ever granted or is not granted. Plaintiff agreed to pay 5 percent royalty to defendant for the first five years and 2½ percent thereafter as long as it manufactured the key holders. Plaintiff continued to pay royalties long after the Patent Office rejected the patent of the defendant. This case is not controlled by *Compco Corporation* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964) and *Sears Roebuck & Co.* v. *Stiffel Company*, 376 U.S. 225 (1964). These cases held that where a patent existed and was held invalid, then a member of the public could copy the article covered by the patent and could not be prevented from copying it.

3. This case is not controlled by *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969), where the Court held that a licensee could challenge the validity of a patent. In that case at page 675, the Court stated:

> "Consequently, we have concluded, after much consideration, that even though an important question of federal law underlies this phase of the controversy, we should not now attempt to define in even a limited way the extent, if any, to which the States may properly act to enforce the contractual rights of inventors of unpatented secret ideas."

4. In this case the plaintiff had disclosed to it the secret ideas of the defendant inventor. They agreed to pay a royalty and continued to do so until they decided to cease such royalty which was long after the patent was denied. This contract is valid as long as plaintiff continues to manufacture and sell the key holders. If plaintiff desires to cease paying royalties, it must also cease making and selling the key holders.

5. Judgment will be entered in favor of defendant and against the plaintiff.

/s/ James H. Meredith
*United States District Judge*

Dated this 29 day of December, 1976.

## JOINT STIPULATION OF UNCONTESTED FACTS

(Filed in U.S. District Court December 6, 1976)

Plaintiff and Defendant, by their respective counsel, stipulate that the following facts are uncontested, but they reserve any objections which they may have to the materiality and relevancy of any such facts to the issues in the case, and to the competency of any such evidence.

1. Plaintiff is a corporation organized and existing under the laws of the State of Missouri, with its principal place of business in Fenton, Missouri.

2. At all relevant times, Plaintiff was and is engaged principally in manufacturing products for the advertising specialty industry.

3. At all relevant times, Defendant was and is a resident of the State of Illinois. Her present married name is Jane Aronson Hossfeld.

4. During the month of June, 1956, Defendant and her agent, Norbert Leopoldi, came to Plaintiff's offices in St. Louis, Missouri, in order to negotiate an agreement with Plaintiff for the use of Defendant's keyholder invention. At the close of said negotiations, Plaintiff, by its President G. A. Goessling, set forth its proposal for an agreement in its letter of June 26, 1956, to Defendant. Plaintiff's letter is attached hereto and marked as Exhibit "A". On June 27, 1956, Defendant entered a hand-written notation on Exhibit A which expressed concurrence subject to the additional paragraphs shown on Exhibit B which additional paragraphs reflected an agreement reached by telephone between Mr. G. A. Goessling of Plaintiff and Mr. N. Leopoldi, agent for Defendant. Mr. G. A. Goessling of Plaintiff affixed his signature to the agreement of Exhibit B in St. Louis, Missouri and returned it to Defendant as an enclosure with a letter dated July 13, 1956, Exhibit C.



5. The agreement as reflected in Exhibit "A" of June 26, 1956, in part, gives Plaintiff the exclusive license and right to make and sell keyholders of the type shown in Defendant's patent application, Serial No. 542,677 which was filed with the U. S. Patent Office on October 25, 1955, such application being disclosed by Defendant and her agent to Mr. G. A. Goessling of Plaintiff. The agreement as reflected in Exhibit "B" provides that the royalty rate would be reduced from 5% to 2½% if no patent issued from application Serial No. 542,677, within five years of June 27, 1956, said 2½% royalty of sales to be paid Defendant "as long as you [Plaintiff] continue to sell same".

6. Pursuant to the parties' agreement as shown in Exhibits "A" and "B", Plaintiff commenced manufacturing keyholders on or about July, 1956. Plaintiff paid Defendant a 5% royalty on the gross sales of the keyholders from July, 1956 to June 26, 1961, whereupon the royalty was reduced to 2½% of sales in accordance with the provision of the agreement as referred to in Exhibit "B". On that date, Defendant had not been granted a patent on the application Serial No. 542,677.

7. The keyholders and "keyrules" manufactured and sold by Plaintiff under the above mentioned agreement are described in Plaintiff's Quick Point Company's 1976 Catalogue, a copy of which is attached hereto as Exhibit "D".

8. On January 27, 1959, the parties executed a Supplementary Agreement, Exhibit "E", with respect to royalties on keyholders sold in combination with rulers, watches and other items, said agreement relating only to the royalty rate schedule of the keyholders in combination with rulers, and not otherwise altering any term in the agreement shown by Exhibit "A" and "B".

9. On April 4, 1961, the aforesaid Norbert Leopoldi filed a patent application, Serial No. 104,496, concerning a keyholder invention. Patent No. 3,126,729 was issued to Mr. Leopoldi

on said application on March 31, 1964. A certified copy of said patent is attached hereto as Exhibit "D-1".

10. Under date of April 10, 1961, prior to the final denial of defendant's patent application, Serial No. 542,677, the law firm of Gravely, Lieder and Woodruff, specializing in patent law, on behalf of plaintiff, sent a letter to defendant and her agent, Norbert Leopoldi. Said letter is attached hereto and marked as Exhibit "D-2".

11. Plaintiff's payments of royalties on Defendant's keyholder are the following annual amounts, based upon Plaintiff's fiscal year ending March 31:

| Year Ending | Royalties |
|---|---|
| 3-31-57 | $ 1,718.35 |
| 3-31-58 | 4,061.87 |
| 3-31-59 | 7,967.65 |
| 3-31-60 | 5,713.86 |
| 3-31-61 | 7,805.29 |
| 3-31-62 | 5,983.59 |
| 3-31-63 | 6,098.98 |
| 3-31-64 | 5,543.73 |
| 3-31-65 | 6,511.40 |
| 3-31-66 | 7,036.32 |
| 3-31-67 | 7,594.54 |
| 3-31-68 | 8,743.14 |
| 3-31-69 | 11,211.29 |
| 3-31-70 | 13,284.24 |
| 3-31-71 | 15,300.90 |
| 3-31-72 | 18,737.05 |
| 3-31-73 | 20,210.85 |
| 3-31-74 | 21,081.04 |
| 3-31-75 | 21,428.70 |
| 9-30-75 (6 months) | 7,931.05 |
| | $203,963.84 |

From July, 1957, to September, 1975, Defendant has received a total of $203,963.84 in royalty payments from Plaintiff, based upon Plaintiff's gross sales of the keyholders.



12. Defendant's keyholder invention was never patented. On October 25, 1955, Defendant filed Patent Application No. 542,677 on the keyholder. In 1956, the United States Patent Office first rejected Defendant's application. In 1956, Defendant filed amendments to the original application, but the Patent Office finally rejected the application in 1957. Following an appeal filed in 1958, the Patent Office (Board of Appeals) on September 27, 1961, made a final rejection of a patent on Defendant's keyholder, as an unpatentable invention. To date, the keyholder remains unpatented.

13. On March 26, 1965 Mr. G. A. Goessling of Plaintiff sent a letter to defendant. Said letter is attached hereto and identified as Exhibit "D-3".

14. In the late 1960's, certain keyholders substantially identical to that exclusively licensed by Defendant to Plaintiff began appearing on the market, and in the 1970's the competition in the keyholder market has grown and continues to grow. Plaintiff's competitors which manufacture and sell such keyholders are listed below. In separate columns corresponding to the competitor's name are listed the Exhibit number of the competitor's catalogue and of an attached example of the keyring manufactured by the competitor:

| Name | Catalogue Ex. | Keyholder Ex. |
|---|---|---|
| Dard Products, Inc.<br>912 Custer Avenue<br>Evanston, Illinois 60602 | F | O |
| Colt & Dumont<br>2375 72 Street, North<br>St. Petersburg, Florida 33710 | G | — |
| Pat Advertising Products<br>P. O. Box 31<br>Florissant, Missouri 63132 | H | — |
| Barlow<br>2330 Pontious Avenue<br>Los Angeles, California 90064 | K | P |

| Name | Catalogue Ex. | Keyholder Ex. |
|---|---|---|
| Alumna-Line<br>Nelson Boone Co.<br>4601 Louisville Avenue<br>Louisville, Kentucky 40209 | L | — |
| Hit Sales Co.<br>115 5th Avenue<br>New York, New York 10003 | M | — |
| Zippo | N | — |
| Vernon Co.<br>Newton, Iowa | — | Q |

Examples of four additional competing keyholders, of which the manufacturers' identity is unknown, are attached hereto as Exhibits "S" through "V". Examples of Plaintiff Quick Point Pencil Company's keyholders are attached as Exhibit "W" to "Z".

Plaintiff's competitors have made and sold, and continue to make and sell, such keyholders in competition with Plaintiff. To the extent that Plaintiff's competitors do not pay royalties on the keyholders they manufacture, such competitors do not have such a cost, which, of course, affects profits. Defendant has taken no legal action to prevent Plaintiff's competitors from copying, making and selling such keyholders inasmuch as defendant now has no legal right to do so.

15. Plaintiff continues to make and sell keyrings of the type on which Plaintiff previously paid royalties to Defendant; and Plaintiff further has made and sold and continues to make and sell keyholders of a different type on which no royalties are due Defendant.

16. Defendant has demanded the monthly royalty payment for the month of October, 1975, and that Plaintiff continue making such monthly royalty payments as provided in the



agreement; but said demand has been rejected by Plaintiff. As of October 1, 1975, plaintiff ceased making keyholder royalty payments on the advice of counsel.


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DOMINIK, KNECHTEL, GODULA & DEMEUR
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Suite 4020
Chicago, Illinois 60606
312/726-5342

## EXHIBIT A

Quick Point Pencil Company
4020 Olive
Saint Louis 8, Mo.
The Finest Color Printed Mechanicals

June 26, 1956

Mrs. Jane Leopoldi,
4180 Marine Drive,
Chicago, Illinois.

Dear Mrs. Leopoldi:

The following agreement I think will be suitable and simple enough that it will be thoroughly understandable in its terminology to all of us. We are forwarding to you under separate cover a check for $750.00 and also three agreements signed. If this is in accordance with your wishes please sign and return two copies to the writer—one for my personal files and one for Quick Point Pencil Company.

Quick Point Pencil Company will have the exclusive right to make and sell keyholders of the type shown in your application, Serial No. 542677, and will start manufacturing within 60 days after you indicate your acceptance of the following terms.

We will pay you $750.00 right away as an advance payment on royalties; the royalty rate will be 5% of our selling price (not to include shipping charges) on all keyholders which we make in accordance with the design shown in your application, Serial No. 542677.

If we do not make and sell at least one million units by December 31, 1957, you can require us to give up the exclusive license, and if at any time the volume of sales does not



meet our expectations, we can cancel the agreement by giving you written notice to that effect.

If you agree to these terms, please indicate your acceptance by signing your name at the bottom of this letter and returning two copies to me, retaining one copy for your files.

In the event of any infringement, as I discussed with Mr. Leopoldi, we will at the time decide between us any action that should be taken. However, we will not agree to enter into litigation until a mutual conference and understanding can be reached between us.

Trusting all the above meets with your entire approval so that we can get started on this item, we remain,

Yours very truly,

/s/ G. A. Goessling
G. A. Goessling, *President*

GAG:d

Date: June 27th, 1956

Accepted: /s/ G. A. Goessling
G. A. Goessling
Jane Leopoldi
/s/ Jane Leopoldi

Also check for $750.00 including this agreement.

I am in agreement with the above letter in its general content with the additional paragraphs as per the attached page. This was discussed and agreed upon between Mr. Goessling and Mr. Leopoldi via Long Distance Telephone on June 27th, 1956.

/s/ Jane Leopoldi

## EXHIBIT B

N. LEOPOLDI
4180 Marine Drive
Chicago 13
BIttersweet 8-7052

June 27th, 1956

ADDITIONAL PARAGRAPHS TO AGREEMENT-LETTER OF QUICK POINT PENCIL CO. OF ST. LOUIS, LETTER OF JUNE 26th, 1956, SIGNED BY MR. G. A. GOESSLING, PRESIDENT OF QUICK POINT.

(1) In the event that the Keyholder Patent Application number 542677 is not allowed within five (5) years, Quick Point Pencil Co. agrees to pay Jane Leopoldi two and one-half percent (2½%) of sales, at selling prices, as long as you continue to sell same.

(2) Payments to Jane Leopoldi of Royalties on Keyholders, will be made quarterly, and Jane Leopoldi shall have the right to have a Certified Public Accountant check the Bookkeeping Records of Quick Point Pencil Co., to verify sales, if she so desires; this to be at her expense.

Date: June 27, 1956

Accepted: /s/ JANE LEOPOLDI
Jane Leopoldi

/s/ G. A. GOESSLING
G. A. Goessling



## EXHIBIT C

July 13, 1956

Mr. and Mrs. N. Leopoldi,
4180 Marine Drive,
Chicago 13, Illinois.

Dear Mr. and Mrs. Leopoldi:

I am returning the signed supplemental agreement, which was mutually agreed upon. I am sorry that I could not get this to you at an earlier. As you know we were on vacation all last week and I was late in returning to the plant and have been so extremely busy the last few days I did not have an opportunity to go into the matter at once.

For your additional information we are making sample tool cavities of a number of styles; these tools will be completed today and we should have samples Monday.

I notice the springs you sent me are of a number of different finishes and also temper—the nickel-plated ones look far better than the cadmium plate. I do not believe the cadmium plate will stand up satisfactory. We have this item out for quotation and the prices we are receiving indicate that we will be able to buy this spring in the neighborhood of ½¢ each; therefore I do not know whether we will be able to use your springs at a 3¢ price. However, I wish you would send me 50 of the nickel-plated springs by return air mail as I would like to try them on these samples we are molding and I will return some of the molded and printed samples to you early next week so that you can see just what progress we are making. We have been hopeful of getting into work on this at a very early date and I will keep you informed as to our progress.

You mentioned to me the permanent match—as I advised you I have quite a large working file on this particular item. We

have samples of the Swedish match which was offered here sometime back. I have also been in correspondence with Dr. Joseph Ellenbogen, in England. We would be very interested in one of these that will work satisfactorily and production cost would be satisfactory. If you have any connections that you can expedite this I think we could work out something with you. Please let me hear from you regarding it and if you have any sample for one of these matches I would be very happy to see it and can return it to you after examination, if you desire me to do so.

Yours very truly,

G. A. GOESSLING, *President*

GAG:d

encl.



EXHIBIT D

Advertising Gifts from Quick Point, 197

# Quick Point

## New for 1976

The 1976 Quick Point Catalog formally introduces a group of new products and sales ideas that have been designed to make this the best sales year you have ever had.

And for those important Bicentennial sales you will be making, Quick Point has also created new products you will be proud to offer to your customers.

In addition to these important new features, this catalog has all the Quick Point products that have been favorites of your customers over the years.

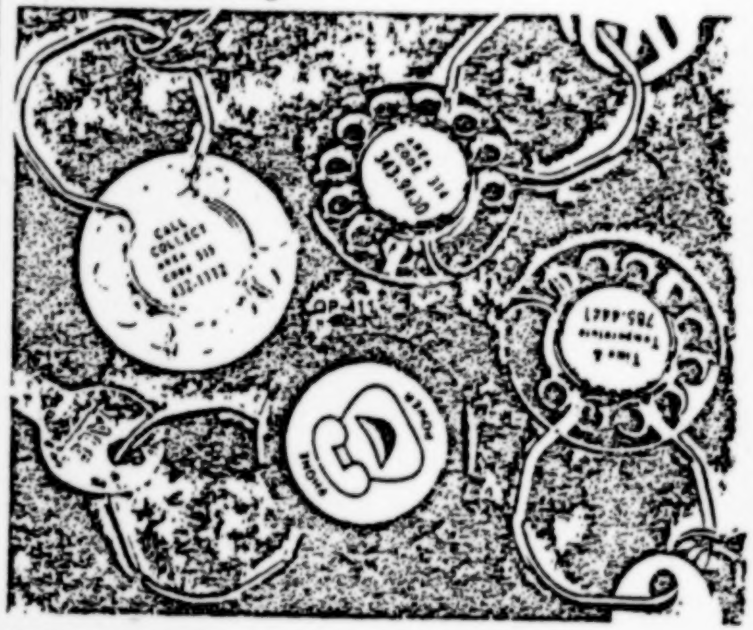
There is also the "Nickel Pickle" Guarantee. You need never again suffer the embarrassment and profit robbing cost of misprints.

Quick Point products, Quick Point service and Quick Point care are your assurance that 1976 will be your best year ever.

New Products and Services — Page



### Telephone Showrings



**Miniature telephone dial (patent pending)**

**Puts phone number where it will be seen and remembered**

**Cases molded in real telephone colors**

**Dial molded of indestructible clear plastic**

**Multicolor ad copy at no extra charge**

| Quantity | 250 | 500 | 1000 | 2500 | 5000 |
|---|---|---|---|---|---|
| QP-411 | .49 | .47 | .46 | .41 | .37 |

**Case Colors**—Black, White and Red.

**Dial Color**—Clear only

**Copy**—PRICE INCLUDES TWO COLOR IMPRINT on ad copy side. 5 lines. 12 characters and spaces per line. Black imprint only on dial side. Additional colors .05(a) each

**Logos or Trademarks**—See printing plate charge

**Packed**—Individual plastic bags

**Shipping Weight**—Approx. 6 lbs. per 100

[EXHIBIT D-1 IS OMITTED FROM THIS APPENDIX]

EXHIBIT D-2

GRAVELY, LIEDER & WOODRUFF
705 Olive Street
St. Louis 1, Missouri

April 10, 1961

Mr. Norbert Leopoldi,
Mrs. Jane Leopoldi,
4180 Marine Drive,
Chicago 13, Illinois.

Dear Mr. & Mrs. Leopoldi:

This is to confirm Mr. Goessling's warning to you that your contemplated license arrangement with another manufacturer for a key holder which you state is shown in a patent application of Norbert Leopoldi will constitute a violation of your license agreement with Quick Point Pencil Company under the Jane Leopoldi application No. 542,677. We remind you that your license agreement is in respect of the disclosure of said Jane Leopoldi application (not merely in respect of its claims) and that even if no patent is ever granted on the Jane Leopoldi application, Quick Point Pencil Company is obligated to pay royalties in respect of any key holders manufactured by it in accordance with any disclosure of said application. This license being exclusive, it follows that you are not free to grant any license to anyone else to make anything disclosed in said application.

Quick Point Pencil Company has fully lived up to its agreement with you and has paid you substantial royalties during the period that it has been a licensee. One would think that your own self-interest would cause you to avoid any action that might interfere with the sales of Quick Point Pencil Company. We



trust that, upon reconsideration, you will conclude to carry out the provisions of your license agreement with Quick Point Pencil Company. If not, proper steps will be taken to enforce the agreement. Among other things, it is obvious Quick Point Pencil Company will be free from its obligation to pay royalties if you authorize some other manufacturer to make a key holder for which Quick Point Pencil Company already has an exclusive license.

Yours truly,

GRAVELY, LIEDER & WOODRUFF
By /s/ JOSEPH GRAVELY

JJG:bsc

cc: Quick Point Pencil Company

Air Mail, Special Delivery
Registered, Return Receipt Requested

P.S. We remind you that you have several times promised to send a drawing of the proposed new holder to Mr. Goessling.

## EXHIBIT D-3

St. Louis Plastic Moulding Co.
Plastic Parts of Every Description
4605 Olive Street
St. Louis, Mo. 63108

March 26, 1965

Miss Jane Leopoldi
4280 Marine Drive
Chicago, Illinois

Dear Miss Leopoldi:

Please be advised that we will continue our payments to you as per our original agreement and whatever disposition you care to make of these payments is entirely your affair and not the affair of Quick Point Pencil Company.

We do not wish to be arbitrary in this matter but on the other hand, Quick Point is only concerned with its' original agreement concerning this and from their point of view, how you dispose of this money is entirely your affair and not the affair of Quick Point Pencil Company.

I am quite sure if you give this thought, you will be in agreement with our attitude.

Kindest regards,

Yours very truly,

/s/ G. A. Goessling
G. A. Goessling

GAG:jp

cc: McDonnell & McDonnell



## EXHIBIT E

January 27, 1959

### SUPPLEMENTARY AGREEMENT

I, Norbert Leopoldi, acting with power-of-attorney for my wife, Jane Leopoldi, agree to allow G. A. Goessling and Quick Point Pencil Co. now operating under contract license under Key Holder Patent Application No. 542677 to manufacture items embodying subject matter of this patent of items not confined to a straight utility key holder.

For example, as a key holder in combination with a ruler or watch or other dissimilar items to establish these items on a unity royalty basis of three-quarters of a cent (¾¢) per unit.

The present status of key holder only now under contract license will remain the same on a percentage basis as per our existing contract whether sold in the advertising field or in the retail merchandising field.

The Supplementary Agreement only effects items where an additional component is added to the key holder. All items made in this category are to carry a unit royalty of three-quarters of a cent (¾¢) irrespective of quantity.

The above is an additional agreement and existing contracts remain in effect as written.

/s/ Norbert Leopoldi
Norbert Leopoldi

/s/ Quick Point Pencil
G. A. Goessling

[EXHIBITS F, G, H, K, L, M AND N ARE OMITTED FROM THIS APPENDIX]



AFFIDAVIT OF JANE ARONSON (FORMERLY JANE LEOPOLDI)

(Filed in U.S. District Court November 4, 1976)

I, Jane Aronson Hossfeld (formerly known as Jane Leopoldi), being duly sworn, deposes and says as follows:

1. On June 27, 1956 I signed an agreement with Quick Point Pencil Company by G. A. Goessling, president, which allowed Quick Point Pencil Company an exclusive right to make and sell key holders of the type shown in my application Serial No. 542,677, a copy of this agreement attached as Exhibit A to the Joint Stipulation of Uncontested Facts.

2. Prior to the time of said agreement with Quick Point Pencil Company, the subject key ring was secret subject matter, the pending U. S. patent application being a secret document under the law, and neither any agent of mine nor myself had disclosed the subject matter generally to any other person except under conditions of confidence.

3. Quick Point Pencil Company was one of the first few commercial enterprises to which the subject matter key ring was disclosed, under confidence, all such disclosures made within a short period of a few weeks.

4. No further attempts were made to disclose or exploit the subject key ring as disclosed in Serial No. 542,677 because of said agreement entered into with Quick Point Pencil Company as shown in Exhibit A.

I say nothing further.

/s/ JANE ARONSON HOSSFELD
(formerly JANE LEOPOLDI)

Signed this 26th day of August, 1976.

Subscribed and Sworn to Before Me this 26th day of August, 1976.

MARTA HERNANDEZ
*Notary Public*

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AFFIDAVIT OF NORBERT LEOPOLDI

(Filed in U. S. District Court November 4, 1976)

I, Norbert Leopoldi, being duly sworn deposes and says as follows:

1. I am the owner of all right, title, and interest in U. S. Patent No. 3,126,729 issued March 31, 1964.

2. At approximately the time of the issuance of U. S. Patent No. 3,126,729, I did discuss and advise Mr. G. A. Goessling, the president of Quick Point Pencil Company of my intent to exploit said patent inviting Quick Point Pencil Company to take an interest thereunder.

3. In response to my invitation to secure a license under U. S. Patent No. 3,126,729, Mr. Goessling warned that any contemplated license arrangement with another manufacturer for said key holder as disclosed in U. S. Patent 3,126,729 would constitute a violation of the license agreement with Quick Point Pencil Company under Jane Leopoldi's application number 542,677.

4. A letter confirming Mr. Goessling's warning was received from Mr. Gravely, of the law firm Gravely, Lieder and Woodruff, counsel for Quick Point Pencil Company. A copy of this letter is attached as Exhibit D-2 to the Joint Stipulation of Uncontested Facts.



5. I, accordingly, made no further attempts to exploit the above said patent.

I say nothing further.

/s/ NORBERT LEOPOLDI

Signed this 26th day of August, 1976.

---

Subscribed and Sworn to before me this 26th day of August, 1976.

MARTA HERNANDEZ
*Notary Public*

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AFFIDAVIT OF JOHN G. GOESSLING

(Filed in U.S. District Court November 5, 1976)

I, John G. Goessling, being duly sworn upon my oath, do hereby depose and state as follows:

1. This affidavit is submitted in support of plaintiff Quick Point Pencil Co.'s Cross-Motion for Summary Judgment herein.

2. I have been employed by Quick Point continuously since 1959, and have been President of Quick Point since 1968.

3. My father, G. A. Goessling, was President of Quick Point in 1956. My father died in 1968.

4. In the 1950's Quick Point was the only manufacturer of keyholders of the type "exclusively" licensed by defendant. In the late 1960's and 1970's at least eight competitors have begun manufacturing keyholders which are substantially identical to that which is described in defendant's license. These competitors are listed in the Stipulation, ¶ 14. While Quick Point's gross sales of the keyholders have generally increased since 1956, the market for the keyholders has expanded at a

much greater rate. Quick Point's percentage of the market for keyholders of the type described in defendant's license has decreased during the late 1960's and 1970's. On information and belief, Quick Point's competitors do not pay royalties on the substantially identical keyholders manufactured and sold by them. The royalty payments to defendant add to Quick Point's cost and make it more difficult for Quick Point to compete in the sale of the keyholders.

5. The keyholders described in defendant's Patent Application Serial No. 542,677 have been manufactured by Quick Point Pencil Co. and sold to the public for the past 20 years. By its unrestricted sale of the keyholders, Quick Point has made full disclosure of defendant's keyholder invention, in every respect, to the general public. As a result, defendant's keyholder invention has not been a "secret" device, process or mechanism in any respect at any time since it has been manufactured and sold by Quick Point.

/s/ JOHN G. GOESSLING

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STATE OF MISSOURI }
COUNTY OF ST. LOUIS } ss.

Subscribed and sworn to before me this 5th day of November, 1976.

/s/ WILLIAM J. TRAVIS
*Notary Public*

My commission expires: 1-14-79